

Decision **04-08-050** August 19, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (E 338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.

Application 00-11-038
(Filed November 16, 2000)

Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan. (U 39 E)

Application 00-11-056
(Filed November 22, 2000)

Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.

Application 00-10-028
(Filed October 17, 2000)

**OPINION IMPLEMENTING AN INTERIM ALLOCATION
OF THE SUPPLEMENTAL 2004 REVENUE REQUIREMENT
DETERMINATION OF THE CALIFORNIA DEPARTMENT
OF WATER RESOURCES**

I. Summary

This decision adopts an interim cost allocation of the supplemental revenue requirement of the California Department of Water Resources (DWR) for its power purchases in 2004. DWR submitted its original request to the Commission in September, 2003. The Commission allocated that revenue requirement among the customers of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas and Electric

Company (SDG&E) in D.04-01-028. In April 2004, DWR submitted a supplemental determination of its 2004 revenue requirement to the Commission, updating its revenue requirement and reducing the amount required from ratepayers by \$245 million.

When DWR provides the Commission with a determination of its revenue requirement, we are bound under the Rate Agreement (D.02-02-051) to impose revised Bond Charges and/or Power Charges, as appropriate and necessary, no later than 120 days following the submittal of DWR's request. In order to meet that deadline, this decision allocates, again on an interim basis, the 2004 revenue requirement of DWR as modified by the supplemental determination. The allocation methodology is identical to the interim methodology used in D.04-01-028. The interim allocation adopted today will remain in place until a permanent allocation methodology is adopted.

II. Background

This Commission has previously established allocations for the DWR revenue requirement for 2001-2002 (see, D.02-02-052), and for 2003 (see, D.02-12-045). For DWR's original 2004 revenue requirement request we have continued to use, on an interim basis, the 2003 allocation methodology. (D.04-01-028, as modified by D.04-02-028.) In this proceeding, we have stated our intention to adopt an allocation methodology applicable to 2004, but also applicable for the remaining term of the DWR power purchase contracts.

On September 19, 2003, DWR submitted its original Determination of Revenue Requirement for 2004 to the Commission. On September 30, 2003 SDG&E filed a Motion to Bifurcate the 2004 proceeding, stating in part that "In order to ensure all parties due process, the final allocation methodology should be litigated on a separate track that permits sufficient time and resources to be

devoted to this endeavor. The procedural schedule also should allow parties time to work towards reaching consensus on this issue.”

Following discussion at the October 2, 2003 PHC, ALJ Allen issued a ruling granting SDG&E’s Motion To Bifurcate (ALJ Ruling dated October 17, 2003, 3). ALJ Allen ruled that the 2004 Revenue Requirement was to be allocated on an interim basis utilizing the allocation methodology set forth in D.02-12-045 and that the final allocation of the 2004 Revenue Requirement would be considered in a second phase (Id.). On January 8, 2004 the Commission issued D.04-01-028, adopting the interim allocation of the 2004 Revenue Requirement (D.04-01-028, p. 3).

Parties did not reach consensus on a permanent allocation methodology, and filed a range of allocation proposals. Opening and reply testimony was submitted by PG&E, SCE, SDG&E, ORA on December 17, 2003, and those parties and DWR submitted reply testimony on January 9, 2004. Evidentiary hearings were held on January 20 and 21, and opening and reply briefs were filed by the three utilities on February 10th and 18th, respectively.¹

On April 22, 2004, the Settling Parties submitted a motion for leave to submit their proposed settlement agreement. Parties submitted comments and reply comments on the proposed settlement, along with related procedural motions. SDG&E consistently and vociferously opposed the proposed settlement, while ORA generally supported it. The assigned ALJ allowed for submission of the proposed settlement, granted SDG&E’s request for evidentiary hearings, and ordered the settling parties to present witnesses for cross-

¹ ORA submitted only an opening brief, and DWR submitted a memo concurrently with the parties’ reply briefs.

examination. Evidentiary hearings on the proposed settlement were held on June 14 and 15, 2004, with parties submitting opening briefs on the proposed settlement on June 25, 2004, and reply briefs on July 2, 2004.

Finally, also in April, 2004 DWR submitted a supplemental determination of its revenue requirement to the Commission, modifying its revenue requirement for 2004 and reducing the amount required from ratepayers by \$245 million.² Pursuant to an ALJ Ruling, the parties submitted comments addressing the supplemental determination.

This decision allocates the 2004 revenue requirement of DWR as modified by the supplemental determination.³

III. Discussion

We adopt the interim allocation, and resulting IOU power charges, as shown in Appendix A. This allocation will remain in place until a permanent method is adopted. The allocation, and resulting power charges, should also be applied retroactively to January 1, 2004. In addition, the utilities should consult with DWR to adjust their remittances to reflect the power charges ordered in this decision in a manner acceptable to DWR.

We intend to bring back a proposed decision on the issue of the permanent allocation of the DWR power charges at the Commission's next regularly-scheduled meeting. Since only the 2004 allocation is required to be decided

² The effective submission date of the supplemental determination was April 22, 2004. (See, DWR Letter Memorandum dated May 17, 2004.)

³ One difference between the two is that they are based on different modeling runs. The original revenue requirement determination was based on Prosym Run 43, while the supplemental determination is based on Prosym Run 45. The allocation adopted today is based on Prosym Run 45, as reflected in Appendix A.

within the 120 day period,⁴ we make that determination today and will make the permanent allocation in the very near future. In the meantime, we encourage the parties to continue to work toward an all-party settlement.

IV. Assignment of Proceedings

Loretta M. Lynch and Geoffrey F. Brown are the assigned Commissioners and Peter V. Allen is the assigned Administrative Law Judge in these proceedings.

V. Comments on Proposed Alternate Decision

The proposed alternate decision of President Peevey was mailed to the parties on August 5, 2004 in accordance with Rule 77.6 (d) of the Commission's Rules of Practice and Procedure. Comments were due on August 12, 2004 and were received from ORA, SDG&E, and the Settling Parties. Reply comments were due on August 16 and were received from SDG&E and the Settling Parties. We have made several revisions and clarifications to this decision in response to the comments filed by the Settling Parties to clarify that the interim methodology, and resulting power charges, adopted in this decision apply retroactively to January 1, 2004. We decline to adopt the request of ORA that the agreement of the Settling Parties apply to 2004, since we will address that in our forthcoming decision on a permanent allocation. We also decline SDG&E's request to make the interim methodology permanent in advance of our forthcoming decision. Finally, we require that the utilities consult with DWR in adjusting their remittances as a result of this decision.

⁴ See D.02-02-051, Appendix C, "Rate Agreement By and Between California Department of Water Resources and California Public Utilities Commission", Sections 5.1(d) and 6.1(d).

Findings of Fact

1. DWR's supplemental revenue requirement determination is in compliance with Assembly Bill (AB) 1X (Chapter 4 of the Statutes of 2001-02 First Extraordinary Session).
2. The Rate Agreement requires the Commission to act on DWR's supplemental revenue requirement within 120 days of receipt.

Conclusions of Law

1. It is reasonable to allocate DWR's supplemental revenue requirement according to the interim method adopted in D.04-01-028 until we adopt a final allocation methodology.

O R D E R

IT IS ORDERED that:

1. The allocation methodology adopted today for the Department of Water Resources' (DWR) revenue requirement is an interim allocation and will remain in place until a permanent methodology is adopted.
2. The allocation methodology, and resulting power charges are applied retroactively to January 1, 2004.
3. The results of the interim allocation we adopt are set forth in Appendix A. The utilities shall consult with DWR to adjust their remittance rates, to reflect the power charges adopted in this decision in a manner that is acceptable to DWR.

4. This order is effective immediately.

This order is effective today.

Dated August 19, 2004, at San Francisco, California.

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I will file a concurrence.

/s/ LORETTA M. LYNCH
Commissioner

APPENDIX A

IOU Cost Allocation Summary

Appendix A
2004 DWR Revenue Requirement
INTERIM Methodology for Allocation of Revenue Requirement

Note: The INTERIM allocation of the 2004 DWR revenue requirement is based on the allocation methodology authorized by the CPUC in D.02-12-045.

1. Calculate allocation percentages: each IOU's portion of DWR supplied energy, which is adjusted for Pre-DA migration.

Line		PG&E	SCE	SDG&E	Total	Source
1	Supply from DWR (GWh)	23,408,590	29,511,880	9,307,820	62,228,290	DWR Financial Model (IOU Tabs)

- a) Adjust the amount of DWR supplied energy for each IOU by adding Pre-DA migration factor to DWR supplied energy. In addition, subtract DWR's share of surplus energy from DWR supplied energy.

Line		PG&E	SCE	SDG&E	Total	Source
2	Direct Access Migrated Load (GWh)	8,021,985	10,632,974	2,087,097	20,742,056	DWR Financial Model (IOU_DA Tabs)
3	Departing Load (GWh)	0	0	0	0	
4	DWR Share of Surplus Energy* (GWh)	(323,573)	(5,434,759)	(762,109)	(6,520,440)	DWR Financial Model (IOU Tabs)
5	DWR Supplied Energy Adjustment (GWh)	7,698,413	5,198,215	1,324,988	14,221,616	Line 2 + Line 2 + Line 4
6	DWR Share of Portfolio (GWh)	31,107,003	34,710,095	10,632,808	76,449,906	Line 1 + Line 5
7	% DWR Supplied Energy	40.69%	45.40%	13.91%	100%	IOU Line 6 / Total Line 6

* Off-system sales volumes are directly assigned to IOUs based on ProSym forecasts.

2) Calculate the adjusted DWR Revenue Requirement and allocate to each IOU

a) Start with DWR's 2004 Revenue Requirement

Line	2004 DWR Revenue Requirement		Source
8	Power Costs	\$4,859,626,196	DWR Supplemental Determination, Table A-1
9	Administrative & General Expenses	\$59,000,000	DWR Supplemental Determination, Table A-1
10	Extraordinary Costs	\$37,054,868	DWR Supplemental Determination, Table A-1
11	Less:		
12	Extraordinary Receipts from Utilities	(\$51,896,968)	DWR Supplemental Determination, Table A-2
13	Revenue from Surplus Sales**	\$0	** Revenue directly assigned to the IOUs. See step 2.c.
14	Net Operating Revenues	(\$327,325,754)	DWR Supplemental Determination, Table A-1
15	Interest Earnings on Fund Balance	(\$32,067,543)	DWR Supplemental Determination, Table A-1
16	DA CRS Revenue **	\$0	** Revenue directly assigned to the IOUs. See step 2.c.
17	DWR Revenue Requirement	\$4,544,390,798	(Sum of Lines 8 - 15)

b.) Determine each IOU's share of the DWR Revenue Requirement by multiplying the adjusted DWR Revenue Requirement by each IOU's supplied energy allocation factor.

Line		PG&E	SCE	SDG&E	Total	Source
18	Adjusted DWR Revenue Requirement				\$4,544,390,798	Line 17
19	% DWR Supplied Energy	40.69%	45.40%	13.91%	100%	Line 7
20	IOU Share of Adjusted DWR Revenue Requirement	\$1,849,085,021	\$2,063,262,663	\$632,043,114	\$4,544,390,798	Line18 * Line 19

c.) Reduce each IOU's share of the DWR Revenue Requirement by the portion of off-system sales and DA CRS revenue assigned to each IOU. **This is the FINAL "INTERIM" ALLOCATION of the 2004 DWR Revenue Requirement.**

Line		PG&E	SCE	SDG&E	Total	Source
21	IOU Share of Adjusted DWR Revenue Requirement	\$1,849,085,021	\$2,063,262,663	\$632,043,114	\$4,544,390,798	Line 20
22	DWR's share of Surplus Sales Revenue	\$18,078,332	\$215,013,323	\$39,486,934	\$272,578,590	DWR Financial Model (IOU Tabs)
23	DWR's share of DA CRS Revenue **	\$104,312,750	\$104,663,900	\$32,119,330	\$241,095,980	DWR Financial Model (IOU Tabs)
24	Final "interim" allocation of 2004 DWR Revenue Requirement	\$1,726,693,939	\$1,743,585,440	\$560,436,850	\$4,030,716,229	Line 21 - Line 22 - Line 23

** Final DA CRS revenues will be directly estimated by each IOU as part of their advice filings implementing the Commission decision

3) Remittance Rate Calculation

Line		PG&E	SCE	SDG&E	Total	Source
25	Final "interim" allocation of 2004 DWR Revenue Requirement	\$1,726,693,939	\$1,743,585,440	\$560,436,850	\$4,030,716,229	Line 24
26	Results of 2001-2002 True-up	(\$100,590,687)	\$41,308,258	\$59,282,428	(\$1)	D.04-01-028
27	Adjusted Allocation--Basis for IOU Power Charge Calculation	\$1,626,103,252	\$1,784,893,698	\$619,719,278	\$4,030,716,228	
28	2004 DWR Delivered Energy (kWh)	21,145,875,964	21,910,180,395	7,998,785,843	51,054,842,202	DWR Financial Model (IOU Tabs)
29	IOU Power Charge before Operating Account Adjustment (\$/kWh)	\$0.07690	\$0.08146	\$0.07748		Line 27 / Line 28

* To determine the final power charge needed to exactly achieve DWR's requested Operating Account (OA) funding levels, the DWR financial model needs to be solved for a small power charge component that reflects the varied daily timing of remittances from each IOU. This power charge component is included in the IOU power charge calculation.

30	Adjustment to Power Charges to achieve DWR's requested Operating Account ending balance	(\$0.00092)	(\$0.00092)	(\$0.00092)		Model Solution
31	Final IOU Power Charge for Remittances to DWR (\$/kWh)	\$0.07598	\$0.08055	\$0.07656		Line 29 + Line 30

(END OF APPENDIX A)